



DOREL INDUSTRIES INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis of financial conditions and results of operations ("MD&A") should be read in conjunction with the consolidated financial statements for Dorel Industries Inc. ("Dorel" or "the Company") for fiscal years ended December 30, 2008 and 2007 ("the Consolidated Financial Statements"), as well as with the notes to the Consolidated Financial Statements. All financial information contained in this MD&A and in the Company's Consolidated Financial Statements are in US dollars, unless indicated otherwise, and have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), using the US dollar as the reporting currency. This MD&A is current as of March 10, 2009.

Forward-looking statements are included in this MD&A. See the "Caution Regarding Forward Looking Information" included at the end of this MD&A for a discussion of risks, uncertainties and assumptions relating to these statements. For a description of the risks relating to the Corporation, see the "Market Risks and Uncertainties" section of this MD&A. Further information on Dorel's public disclosures, including the Company's Annual Information Form ("AIF"), are to be available within the prescribed filing deadlines on-line at www.sedar.com and Dorel's website at www.dorel.com.

Corporate Overview

The Company's head office is based in Montreal, Quebec, Canada. In total, the Company operates in seventeen countries with sales made throughout the world and employs approximately 4,700 people. Dorel's ultimate goal is to satisfy consumer needs while achieving maximum financial results for its shareholders. The Company's growth has resulted from both increasing sales of existing businesses and by acquiring businesses that management believes add value to the Company.

Strategy

Dorel is a world class juvenile products and bicycle company. Established in 1962, Dorel creates style and excitement in equal measure to safety, quality and value. The Company's lifestyle leadership position is pronounced in both its juvenile and bicycle categories with an array of trend-setting products. In the Juvenile segment, Dorel's powerfully branded products such as Quinny, Maxi-Cosi, Safety 1st and B  b   Confort have shown the way to safety, originality and fashion. Similarly, its highly popular brands such as Cannondale, Schwinn, GT and Mongoose as well SUGOI Apparel have made Dorel a principal player in the bicycle marketplace. Dorel's Home Furnishings segment markets a wide assortment of furniture products, both domestically produced and imported. The Company relies on innovation and marketing flair across all of its divisions.

Within each of the three segments, there are several operating divisions or subsidiaries. Each segment has its own President and is operated independently by a separate group of managers. Senior management of the Company coordinates the businesses of all segments and maximizes cross-selling, cross-marketing, procurement and other complementary business opportunities.

Dorel conducts its business through a variety of sales and distribution arrangements. These consist of salaried employees; individual agents who carry the Company's products on either an exclusive or non-exclusive basis; individual specialized agents who sell products, including Dorel's, exclusively to one customer such as a major discount chain; and sales agencies which themselves employ their own sales force. While retailers carry out the bulk of the advertising of Dorel's products, all of the segments advertise and promote their products through the use of advertisements in specific magazines, multi-product brochures, on-line and other media outlets.

Dorel believes that its commitment to providing a high quality, industry-leading level of service has allowed it to develop successful and mutually beneficial relationships with major retailers. A high level of customer satisfaction has been achieved by fostering particularly close contacts between Dorel's sales representatives and clients. Permanent, full-service agency account teams have been established in close proximity to certain major accounts. These dedicated account teams provide these customers with the assurance that inventory and supply requirements will be met and that any problems will be immediately addressed.

In addition to quality products and dedicated customer service, strong recognized consumer brands are an important element of Dorel's strategy. As examples, in North America, Dorel's Schwinn and Cannondale product lines are among the most recognized brand names in the sporting goods industry. Safety 1st is a highly regarded Dorel brand in the North American juvenile products market. In Europe, Bébé Confort is universally recognized and has superior brand awareness in France. Throughout Europe the Maxi-Cosi brand has become synonymous with quality car seats. These brands, and the fact that Dorel has a wide range of other brand names, allows for product and price differentiation within the same product categories. Product development is the final element of Dorel's past and future growth. Dorel has invested heavily in this area, focusing on innovation, quality, safety and speed to market with several design and product development centres. Over the past two years, Dorel has spent over \$53 million on new product development.

Operating Segments

Juvenile Products

The Juvenile Products ("Juvenile") segment manufactures and imports products such as infant car seats, strollers, high chairs, toddler beds, cribs, playpens, swings and infant health and safety aids. In North America, the majority of juvenile sales are made to mass merchants, department stores and hardware/home centres, where consumers' priorities are design oriented, but with a focus on safety and quality at reasonable prices. Therefore sales to this channel are focused on entry level to mid-price point products. Using innovative product designs, higher-end price points are also being serviced by these customers, representing additional sales opportunities for the segment. Dorel is among the three largest juvenile products companies in North America along with Graco (a part of the Newell Group of companies) and Evenflo Company Inc.

In Europe, Dorel sells products across all price points from entry-level to high-end juvenile products. However, with its well recognized brand names and superior designs and product quality, the majority of European sales are made to major European juvenile product chains along with boutiques and smaller stores. Dorel is also one of the largest juvenile products companies, competing with companies such as Britax, Peg Perego, Chicco, Bugaboo, Jane and Graco, as well as several smaller companies. In Australia, sales are made to both large retailers and specialist stores. Globally, within its principal categories, Dorel's combined juvenile operations make it the largest juvenile products company in the world.

The Juvenile segment operates in North America, Europe and Australia. In early 2009, Dorel established a new company in Brazil to expand sales within that country. Dorel Juvenile Group ("DJG") USA's operations in the United States are headquartered in Columbus, Indiana with facilities in Foxboro, Massachusetts and Ontario, California. As well as being the headquarters, all North American manufacturing and car seat engineering is based in Columbus. Products are conceived, designed and developed at the Foxboro location. Dorel Distribution Canada is located in Montreal, Quebec and sells to customers throughout Canada. The principal brand names in North America are Cosco, Safety 1st, Maxi-Cosi and Quinny. In addition, several brand names are used under license, the most significant being the well-recognized Eddie Bauer brand used in North America.

Dorel Europe is headquartered in Cholet, France and major product design facilities are located both in Cholet and Helmond, Holland. Sales operations along with manufacturing and assembly facilities are located in France, Holland and Portugal. In addition, sales and/or distribution subsidiaries are located in Italy, Spain, the United Kingdom, Germany, Belgium and Switzerland. In Europe, products are marketed

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under the brand names B  b   Confort, Maxi-Cosi, Quinny, Monb  b  , Babid  al, Baby Relax and Safety 1st. In Australia, Dorel is the majority shareholder in IGC Dorel ("IGC") which manufactures and distributes its products under several local brands, the most prominent of which are Bertini and Mother's Choice. IGC has done an exceptional job of introducing and integrating Dorel's North American and European brands in Australia, broadening their sales range. Dorel Asia sells cribs and other juvenile furniture to various retailers in North America. In addition, many of Dorel's divisions sell products to customers which are marketed under various house brand names. In 2008, the Juvenile segment accounted for 51% of Dorel's revenues.

On January 6, 2009 the Company announced it is establishing *Companhia Dorel Brasil Produtos Infantis* (Dorel Brazil), a new operating division of the Company's Juvenile segment. A local well respected partner with established relations in Brazil's retail channels and with solid experience in the juvenile sector will act as President of the new company. With the 7th ranked population in the world with over 196 million residents, Brazil is characterized by a young population with a high birth rate of 18.7 per 1000 inhabitants, compared to the US rate of 14.2. Additionally, car seats became mandatory in Brazil in June 2008 and demand has escalated. The Company intends to establish the local manufacture of car seats as well as import existing Dorel products that meet local safety standards. The total investment is expected to be less than \$4 million.

Recreational/Leisure

The Recreational / Leisure segment's businesses participate in a marketplace that totals approximately \$55 billion dollars in retail sales annually. This includes bicycles, bicycling and running footwear and apparel, jogging strollers and bicycle trailers, as well as related parts and accessories. The breakdown of bicycle sales around the world is approximately 50% in Asia-Pacific, 22% in Europe, 12% in North America, with the balance in the rest of the world. The bicycle market has remained stable over the past 15 years, with trends such as the rise in popularity of mountain bikes in the late 1990s and the spike in road bike sales in the early 2000s offsetting other declines. In the US, over that same period the mass merchant channel has captured a greater share of the market and today accounts for over 70% of unit sales.

Despite the growth of the mass merchant channel, the Independent Bicycle Dealer (IBD) distribution channel remains an important retail outlet in North America, but particularly so in Europe and other parts of the world. IBD retailers specialize in higher-end bicycles and deliver a level of service to its customers that the mass merchants cannot. Retail prices in the IBD's are much higher, reaching up to over ten thousand dollars. This compares to the mass market channel where the average retail price is less than \$100. Finally the sporting goods channel also sells bicycles, however in the US this channel accounts for less than 10% of total retail sales.

Brand differentiation is an important part of the bicycle industry with different brands being found in the different distribution channels. High-end bicycles and brands would be found in IBD's and some sporting goods chains, whereas the other brands can be purchased in mass market retailers. Consumer purchasing patterns are generally influenced by economic conditions, weather and seasonality. Principal competitors include Huffy, Dynacraft, Trek, Giant, Specialized, Scott and Raleigh. In Europe, the market is much more fragmented as there is additional competition from much smaller companies that are popular in different regions.

The bicycle business is divided into two distinct divisions to clearly delineate the business between mass merchant customers and the Independent Bike Dealer ("IBD") network of smaller bicycle stores. The IBD retail channel is serviced by the Cannondale Sports Group ("CSG") which focuses exclusively on this category with the premium-oriented brands Cannondale, SUGOI, GT and others. Pacific Cycle has an exclusive focus on mass merchant customers, principally with the Schwinn and Mongoose brands used on bicycles, parts and accessories. An apparel and footwear group ("AFG") is run under the leadership of SUGOI and sales are made through the bicycle IBD's, various sporting good chains and specialty running

stores. AFG competes with such brands as Nike, Pearl Izumi, Adidas, among others, as well as some of the bicycle brands.

In North America, Recreational / Leisure is headquartered from Madison, Wisconsin and Bethel, Connecticut and have significant operations in Vancouver, British Columbia and Bedford, Pennsylvania. In addition, distribution centers are located in California and Illinois. Global operations include locations in the Netherlands, Switzerland, Australia and Japan. In 2008, the Recreational/Leisure segment accounted for 29% of Dorel's revenues.

Home Furnishings

Dorel's Home Furnishings segment participates in the \$80 billion North American furniture industry. Dorel ranks in the top ten of North American furniture manufacturers and marketers and has a strong foothold in both North American manufacturing and importation of furniture, with a significant portion of its supply coming from its own manufacturing facilities and the balance through sourcing efforts in Asia. Dorel is also the number two manufacturer of Ready-to-Assemble ("RTA") furniture in North America. Products are distributed from our North American manufacturing locations as well as from several distribution facilities.

Dorel's home furnishings segment consists of five operating divisions. They are Ameriwood Industries ("Ameriwood"), Altra Furniture ("Altra"), Cosco Home & Office ("Cosco"), Dorel Home Products ("DHP") and Dorel Asia. Ameriwood specializes in domestically manufactured RTA furniture and is headquartered in Wright City, Missouri. Ameriwood's manufacturing and distribution facilities are located in Tiffin, Ohio, Dowagiac, Michigan, and Cornwall, Ontario. Altra Furniture is also located in Wright City, Missouri and designs and imports furniture mainly within the home entertainment and home office categories. Cosco is located in Columbus, Indiana and the majority of its sales are of metal folding furniture, step stools and specialty ladders. DHP, located in Montreal Quebec, manufactures futons and baby mattresses and imports futons, bunk beds and other accent furniture. Dorel Asia specializes in sourcing upholstery and a full range of finished goods from Asia for distribution throughout North America.

While industry furniture sales declined in 2008 due to the significant drop in housing, Dorel sales in home furnishings have increased. Dorel has significant market share within our product categories and has a strong presence with our customer base. Sales are concentrated with mass merchandisers, warehouse clubs, home centers, and office and electronic superstores. Dorel markets its products under generic retail house brands as well as under a range of branded product including; Ameriwood, Altra, System Build, Ridgewood, Dorel Fine Furniture, and Cosco. The Dorel Home Furnishings segment has many competitors including Sauder Mfg. in the RTA category, Meco in the folding furniture category, and Werner in ladders. In 2008, this segment accounted for 20% of Dorel's revenues.

Significant Events in 2008

On February 4, 2008, the Company acquired all the outstanding shares of Cannondale Bicycle Corporation ("Cannondale"), a leading designer, developer and manufacturer of high-end bicycles. The total value of the all-cash transaction was \$202.2 million. Headquartered in Bethel, Connecticut with significant operations in the United States and Holland, as well as locations in Switzerland, Japan and Australia, Cannondale is widely regarded as one of the bike industry's leading innovators. Cannondale's handcrafted bicycles have won numerous design awards and are sold in over 70 countries. Additionally, forming part of Cannondale is the Sugoi Performance Apparel division located in Canada. Sugoi products are used worldwide by runners, cyclists, tri-athletes and fitness enthusiasts. Prior to its acquisition, Cannondale's annual sales were approximately \$200 million.

On April 1, 2008 the Company announced that it voluntarily filed a Form 15F with the US Securities and Exchange Commission ("SEC") to terminate the registration of its Class B Subordinate Voting Shares under the Securities Exchange Act of 1934, as amended. This termination of registration became effective 90 days after its filing with the SEC. As a result of this filing, Dorel's obligation to file certain reports with Dorel Industries Inc.

the SEC, including an annual report on Form 20-F and reports on Form 6-K, was suspended. As a TSX-listed reporting issuer, Dorel will continue to meet its Canadian continuous disclosure obligations by filing with the Canadian securities commissions.

In line with the Company's strategy to aggressively grow its bicycle and juvenile products businesses, on June 26, 2008 Dorel's Pacific Cycle division acquired the assets of PTI Sports, a leading US designer, manufacturer and distributor of bicycle parts, helmets and other accessories. With a purchase price of \$29.4 million, PTI recorded sales of \$65 million in the 2007 fiscal year. Established in 1991, PTI Sports has widespread distribution at the key mass and sporting goods retailers throughout North America, including Category Manager positions and 100% exclusive agreements with a number of its customers. With a dedication to product innovation, PTI sells product with powerful, recognizable brands used under license.

On August 19, 2008 the Company announced the re-opening of its Dowagiac, Michigan RTA furniture plant where operations had been suspended as part of a restructuring plan in 2007. A production line was opened to accommodate the demand for RTA furniture product. It is anticipated that up to 100 manufacturing positions could be created over time as demand dictates. Despite the overall slowdown in the home furnishings retail sector, demand for domestically produced product increased, allowing the Company's two other factories to run much more efficiently and necessitating the need for additional capacity at Dowagiac.

Subsequent events

On January 27, 2009 Dorel announced a further strengthening of its successful high-end European juvenile lines with the purchase of all of the outstanding shares of Belgium-based *BABY ART bvba*. Created in 2006, the Company markets its products under the *BABY ART* and *HOPPOP* brands. The innovative baby products and accessories, feature outstanding modern designs, are highly popular with consumers and received rave reviews at Europe's prestigious 2008 Cologne, Germany juvenile trade fair. It is expected that the *BABY ART* and *HOPPOP* lines will be quickly integrated into Dorel Europe's existing marketing plans and that Dorel's relationships with customers should result in meaningful synergies throughout the Company's distribution networks. The purchase price was 4.1 million Euros, or \$5.3 million. The transaction, which will be immediately accretive to earnings, is being financed through debt.

Operating Results

Following is a selected summary of Dorel's operating results on an annual and quarterly basis.

Selected Financial Information (all tabular figures are in thousands except per share amounts)

	Operating Results for the Years ended December 30:					
	2008		2007		2006	
	\$	% of revenues	\$	% of revenues	\$	% of revenues
Revenues	\$2,181,880	100.0%	\$1,813,672	100.0%	\$1,771,168	100.0%
Net income	\$ 112,855	5.2%	\$ 87,492	4.8%	\$ 88,865	5.0%
Cash dividends declared per share	\$ 0.50		\$ 0.375		NIL	
Earnings per share:						
Basic	\$ 3.38		\$ 2.63		\$ 2.70	
Diluted	\$ 3.38		\$ 2.63		\$ 2.70	
Amount of restructuring costs included in the year based on diluted earnings per share	\$ 0.02		\$ 0.38		\$ 0.10	

	Operating Results for the Quarters Ended			
	31-Mar-08	30-Jun-08	30-Sep-08	30-Dec-08
Revenues	\$556,034	\$593,724	\$552,242	\$479,880
Net income	\$35,133	\$31,347	\$27,208	\$19,167
Earnings per share:				
Basic	\$1.05	\$0.94	\$0.82	\$0.57
Diluted	\$1.05	\$0.94	\$0.82	\$0.57
Amount of restructuring costs (recovery) included in the quarter based on diluted earnings per share	\$0.02	\$0.02	\$0.00	(\$0.02)

	Operating Results for the Quarters Ended			
	31-Mar-07	30-Jun-07	30-Sep-07	30-Dec-07
Revenues	\$455,669	\$459,035	\$440,115	\$458,853
Net income	\$27,939	\$10,845	\$26,360	\$22,348
Earnings per share:				
Basic	\$0.85	\$0.32	\$0.79	\$0.67
Diluted	\$0.85	\$0.32	\$0.79	\$0.67
Amount of restructuring costs included in the quarter based on diluted earnings per share	\$0.04	\$0.27	\$0.02	\$0.05

Income Statement - Overview

2008 versus 2007

Tabular Summaries

Variations in revenue across the Company segments:

	Fourth Quarter				Year			
	2008	2007	Increase (decrease)		2008	2007	Increase (decrease)	
			\$	%			\$	%
Juvenile	\$ 228,694	\$ 257,584	(\$28,890)	(11.2%)	\$1,109,174	\$1,016,645	\$ 92,529	9.1%
Recreational / Leisure	153,834	85,836	67,998	79.2%	643,985	374,783	269,202	71.8%
Home Furnishings	<u>97,352</u>	<u>115,433</u>	<u>(18,081)</u>	<u>(15.7%)</u>	<u>428,721</u>	<u>422,244</u>	<u>6,477</u>	<u>1.5%</u>
Total Revenues	<u>\$ 479,880</u>	<u>\$ 458,853</u>	<u>\$ 21,027</u>	<u>4.6%</u>	<u>\$2,181,880</u>	<u>\$1,813,672</u>	<u>\$ 368,208</u>	<u>20.3%</u>

Principal changes in earnings:

	<u>4th Qtr</u>	<u>Year-to-Date</u>
<u>Earnings from operations by Segment:</u>		
Juvenile increase (decrease) - excluding restructuring costs	(\$2,967)	\$7,555
Recreational / Leisure increase (decrease)	(2,506)	10,360
Home Furnishings increase (decrease) - excluding restructuring costs	(8,199)	(11,353)
Restructuring costs decrease	<u>3,170</u>	<u>18,240</u>
Total earnings from operations increase (decrease)	(10,502)	24,802
Variation in interest costs	(984)	1,343
Variation in income taxes	5,845	(22)
Other	<u>2,460</u>	<u>(760)</u>
Total increase (decrease) in net income	<u>(\$3,181)</u>	<u>\$25,363</u>

Note that detailed analyses of segmented annual results are presented within the discussions that follow this overview.

For fiscal 2008, Dorel recorded revenues of \$2,182 million an increase of 20.3% over 2007. The most substantial increase came in the Recreational / Leisure segment which increased by 71.8% over 2007, benefitting from both the Cannondale and PTI acquisitions in the year. Increases in revenues also occurred in the Juvenile and Home Furnishings segments by 9.1% and 1.5% respectively. Foreign exchange rate variations in the Euro, Pound Sterling and the Canadian dollar versus the US dollar can significantly affect revenue figures. As compared to 2007, throughout most of 2008 the US dollar was weaker versus the Euro and the Canadian dollar, yet stronger against the pound. The net impact of these exchange rate variations was to positively impact 2008 revenues by \$24 million. Additionally, 2008 includes an additional two months of sales from IGC Dorel, the Australian company that was acquired at the end of February 2007. Therefore, excluding these two factors, organic sales actually increased by 6%.

Gross margins for the year were 24.3%, consistent with the 24.2% recorded last year. The 2008 year was characterized by a steep increase in commodities throughout the first half of the year. This resulted in higher raw material costs for Dorel, as well as costing pressure from its finished goods suppliers as they attempted to manage these higher input costs. These cost increases were across all segments and while Dorel was successful in negotiating certain price increases with customers, it was not possible to recover all of these higher costs due either to the timing of achieving these increases or retailer resistance. Helping to offset these cost increases was the impact of variations in foreign exchange rates versus the US dollar. As an example, one Euro was worth an average of \$1.47 US in 2008 versus \$1.37 US in 2007, thus helping margins in Europe. In addition, the Company recognized unrealized gains on foreign exchange hedging instruments in the year, which also helped offset these higher costs and keep margins consistent with the prior year.

Selling, general and administrative ("S, G & A") expenses increased from 2007 levels by \$74.3 million to \$319.1 million. The major reason for the increase was the business acquisitions in the year. These added approximately \$55 million in costs. The conversion of Euro denominated expenses accounts for another \$6 million of the increase with the balance of the S, G & A increase being in line with the Company's 6% organic sales growth.

Despite higher average borrowings as a result of the two business acquisitions in the year, total interest costs in 2008 were \$22.1 million versus \$23.5 million in 2007 as the Company's average interest rate on its

long-term borrowings and revolving facilities in 2008 was approximately 4.6%, versus 6.4% in 2007. Income before income taxes was \$132.0 million in 2008 versus \$106.6 million in 2007, an increase of \$25.4 million or 23.8%.

As a multi-national company, Dorel is resident in numerous countries and therefore subject to different tax rates in those various tax jurisdictions and by the interpretation and application of these tax laws, as well the application of income tax treaties between various countries. As such, significant variations from year to year in the Company's combined tax rate can occur. In 2008 the Company's effective tax rate was 14.5% as compared to 17.9% in 2007. The principal reason was that 2007 included a valuation allowance that increased the rate in that year by 3.6%.

The Parent Company's statutory tax rate is 31.2%. The variation from 31.2% to 14.5% can be explained as follows:

	\$	%
PROVISION FOR INCOME TAXES	\$41,188	31.2%
ADD (DEDUCT) EFFECT OF:		
Difference in effective tax rates of foreign subsidiaries	(20,666)	(15.7%)
Recovery of income taxes arising from the use of unrecorded tax benefits	(5,498)	(4.1%)
Change in valuation allowance	1,100	0.8%
Non-deductible items	3,333	2.5%
Change in future income taxes resulting from changes in tax rates	179	0.1%
Effect of foreign exchange	(1,221)	(0.9)%
Other - net	<u>743</u>	<u>0.6%</u>
ACTUAL PROVISION FOR INCOME TAXES	<u>\$19,158</u>	<u>14.5%</u>

Operating results in the prior year include significant costs related to the closure of production facilities necessitated by a strategic shift of domestic production to overseas suppliers. Specifically, in the Home Furnishings segment, production at the Company's Dowagiac, Michigan RTA furniture manufacturing facility was suspended. In the Juvenile segment, production facilities in Telgate, Italy and Cholet, France underwent significant operational changes. As such, results for 2007 include the following amounts pertaining to these closures:

Home Furnishings

	2007 ('000)
Building and equipment write-downs	\$ 5,727
Employee severance and termination benefits	613
Contract termination costs	534
Other associated costs	<u>60</u>
Recorded as Restructuring costs	6,934
Move of inventory, equipment and other expenses (in Cost of sales)	130
Inventory markdowns (in Cost of sales)	<u>3,877</u>
Total	<u>\$ 10,941</u>

Juvenile

	<u>2007</u> (‘000)
Employee severance and termination benefits	\$ 6,887
Building, machinery and equipment write-downs	1,052
Net curtailment losses on defined benefit pension plans	264
Curtailment gain on compensation liabilities	(318)
Gains on sale of machinery & equipment	(432)
Other associated costs	<u>122</u>
Recorded as restructuring costs	7,575
Inventory markdowns (in Cost of sales)	<u>668</u>
Total	<u>\$ 8,243</u>

2008 includes an insignificant amount of related costs that totaled \$0.9 million pre-tax, or \$0.6 million after-tax, the equivalent of \$0.02 per share.

Net income for the full year amounted to \$112.9 million or \$3.38 per share fully diluted, compared to 2007 net income of \$87.5 million or \$2.63 per diluted share. Excluding restructuring costs in 2007 income before taxes was \$125.8 million and net income was \$100.1 million, or \$3.01 per diluted share.

Fourth quarter 2008 versus 2007

The economic events of the last three months of 2008 were in many ways unprecedented. As examples, the banking industry continued to struggle despite governmental aid, the major car manufacturers in the United States appeared to be on the brink of bankruptcy, oil prices plummeted and commodity prices and currency values against the US dollar fell dramatically. The unemployment rate in the United States jumped and consumer confidence fell to record lows. Retailers around the world reacted by halting orders from suppliers almost across the board to reduce their in-stock levels. Though in some market segments this reaction may have been warranted, in the case of Dorel’s product lines, the level of orders did not represent what sales levels were at retail. As an example, sales at Dorel Home Products fell in the quarter by 50% versus 2007 despite retail sales remaining steady as compared to the prior year. In fact, since the beginning of 2009, point-of-sale figures for Dorel’s products continue to be only moderately affected and in some cases are actually up over prior year comparatives.

Despite steady sales of Dorel’s product at the retail level, the retailers’ reaction to the economic situation had the impact of reducing sales and increasing Dorel’s inventory levels in the quarter. Specifically, the Juvenile and Home Furnishings segments experienced steep sales declines in the fourth quarter, as compared to the prior year. In Juvenile, compounding this was the strengthening of the US dollar in the fourth quarter which had the impact of reducing European sales upon conversion. Throughout the fourth quarter the Euro and the British Pound versus the US dollar was worth approximately 10% and 23% less respectively, than in the prior year. The Recreational / Leisure segment was able to grow sales organically in this environment, but were still lower than expectations. As such despite the sales increase, inventories rose to record levels.

Revenues for the fourth quarter were \$479.9 million compared to \$458.9 million a year ago, an increase of 4.6%. Revenues in the fourth quarter within the Recreational / Leisure segment were up in 2008, increasing by 79.2% over 2007. Therefore the Recreational / Leisure segment increase more than offset declines in Juvenile and Home Furnishings.

Lower sales volumes and a slightly less favourable product mix caused gross margins to decrease from 24.1% in 2007 to 22.7% in 2008. Selling, general and administrative (“S, G & A”) costs increased in the

quarter to \$70.7 million from \$62.0 million in 2007, an increase of 13.9%. This was due to additional costs from the Cannondale and PTI acquisitions, offset by a lower rate of exchange on European and Canadian dollar expenses as well as lower product liability costs in the quarter. The 2007 quarter also included \$2.5 million of restructuring costs.

The Juvenile revenue decline in the fourth quarter was 11.2% and occurred in both North America and Europe. As stated orders from retailers dropped to unprecedented levels as they began to adjust their inventories to what they believed were appropriate levels heading into 2009. In many cases, these order reductions were excessive as sales at retail continued at a reasonable pace. Sales in continental Europe declined by 6.5% organically but increased by over 35% in the United Kingdom. However, the increase in the value of the US dollar versus both the Euro and Pound Sterling meant reported revenues declined by 12.3% for Europe as whole.

Juvenile gross margins were also negatively affected by lower sales levels, a less profitable product mix, and other higher input costs at the majority of the segment's divisions. Counteracting these negatives was the fact that the segment recorded operational foreign exchange gains of approximately \$3 million. These gains were a combination of losses due to the surge in the value of the US dollar, offset by the recognition of unrealized gains on foreign exchange contracts. Another negative impact on margins was the recording of \$2.1 million in the quarter as an estimate of the costs to comply with recent US legislation that regulates the use of lead and phthalates in children's products. These new laws outline maximum levels of these substances that can be included in products sold to consumers.

Selling, general and administrative costs in the Juvenile segment were \$27.9 million a decline of \$8.7 million from the fourth quarter of 2007. Of this decline, \$3.6 million was due to a decrease in product liability expenses with the balance explained by a lower rate of exchange on Euro and Pound Sterling denominated expenses.

Recreational / Leisure segment revenues in the fourth quarter of 2008 increased by 79.2%. The majority of the increase is due to the acquisitions of Cannondale / Sugoi and PTI Sports in February and June of this year respectively. Organic sales growth also occurred at the segment's mass merchant customers in the quarter. Earnings, however, were hampered by several factors. Product mix had a negative impact on margins as did the fact that the apparel component of this segment has a unique seasonality that usually results in the fourth quarter operating at a loss and this occurred in 2008. Additionally as Dorel focuses on building the right organization and re-engineers certain aspects of its operations, higher costs were incurred. Finally, selling and marketing costs were higher due to the timing of certain promotional expenses and warranty costs rose driven by higher sales volumes. Also, the excess purchase price allocation was completed for both the Cannondale and PTI acquisitions and as such depreciation and amortization increased by \$2.0 million versus the prior year.

Home Furnishing revenues were affected by retailer order reductions resulting in a 15.7% reduction in revenues versus last year's fourth quarter. The declines were steepest at the segment's metal folding furniture and futon divisions. Sales of domestically produced ready-to-assemble (RTA) product improved in 2008, with a resultant increase in earnings. Unfortunately these improvements were not enough to offset the declines at the segment's other divisions. In particular, the downward trend in the sales and extremely low margins at Cosco Home & Office that was experienced in the first nine months of 2008 continued into the fourth quarter. Of the earnings decline in the quarter, the majority was due to lower earnings at this division.

Due to Dorel's multi-national operations, foreign exchange rates can have a significant impact on earnings. Over the past several years Dorel has generally benefitted from the weakness of the US dollar versus other currencies. This trend was reversed in the fourth quarter with the sudden surge in the value of the US dollar against practically all foreign currencies. The Company uses hedging instruments such as foreign exchange contracts in an attempt to stabilize the impact of foreign exchange rates, especially in Europe and has some contracts in place for 2009 US dollar requirements. At current exchange rates, this

proved to be an excellent business decision. As the Company does not apply hedge accounting, the benefit of these contracts was recognized in 2008 as opposed to 2009 in the amount of \$10.5 million pre-tax or \$7.4 million after-tax.

Interest costs were higher in 2008 by \$1.0 million as a result of higher borrowings, offset by a lower average borrowing rate in 2008. The Company's income tax expense was \$0.4 million in the fourth quarter of 2008 as compared to \$6.2 million in 2007. The causes of the unusually low tax rate in the quarter were that the quarter's earnings were generated in certain lower tax rate jurisdictions. Additionally, the Company recognized a tax benefit of \$1.8 million pertaining to a prior year's estimated tax position. Excluding this out-of-period benefit, the Company's tax rate for the quarter would have been 11.0%. As a result, net income for the fourth quarter was \$19.2 million, a decrease from \$22.3 million in 2007. Earnings per share for the quarter were \$0.57 fully diluted, compared to \$0.67 per share in the fourth quarter the previous year.

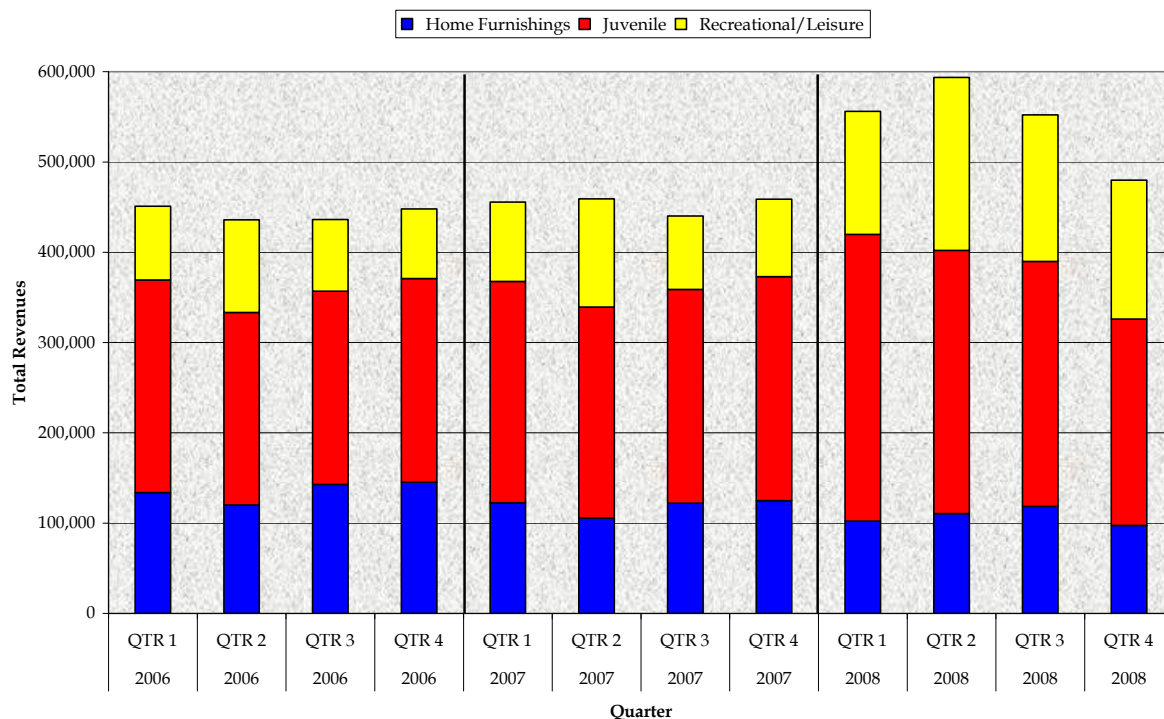
Segment Results

Effective January 2008, the Company has re-classified certain figures from the Home Furnishings segment to the Juvenile segment. This change, based principally on product type and customers served, was made to more accurately reflect the way in which this division's results are reported internally. To allow for better year-over-year comparability, prior year comparative segmented figures have been re-stated. For the quarter revenues of \$7.4 million and earnings from operations of \$0.5 million have been reclassified. For the year, these figures were \$45.4 million and \$7.1 million respectively.

Seasonality

Though revenues at the operating segments within Dorel may vary in their seasonality, for the Company as a whole variations between quarters are not significant as illustrated below. With the growth in the Recreational / Leisure segment, revenues in the second quarter were the highest of all the quarters. However, even with the increase in that segment, the proportion of annual sales in the second quarter remains at less than 30% of the annual total.

Revenues by Quarter by Segment



Juvenile

Juvenile	2008		2007		Change	
	\$ ('000)	% of sales	\$ ('000)	% of sales	\$ ('000)	%
Revenues	<u>\$1,109,174</u>	<u>100.0%</u>	<u>\$1,016,645</u>	<u>100.0%</u>	<u>\$92,529</u>	<u>9.1%</u>
Gross margin	323,901	29.2%	309,236	30.4%	14,665	4.7%
Selling, general and administrative expenses	154,140	13.9%	149,838	14.7%	4,302	2.9%
Depreciation and amortization	32,900	3.0%	32,174	3.2%	726	2.3%
Research and development	7,928	0.7%	6,364	0.6%	1,564	24.6%
Restructuring costs	<u>710</u>	<u>0.1%</u>	<u>7,575</u>	<u>0.7%</u>	<u>(6,865)</u>	<u>(90.7%)</u>
Earnings from operations	<u>\$ 128,223</u>	<u>11.6%</u>	<u>\$ 113,285</u>	<u>11.2%</u>	<u>\$14,938</u>	<u>13.2%</u>

The Company's Juvenile segment continued its growth and had the most successful year in its history as revenues reached \$1.1 billion and earnings from operations were \$128.2 million. As a percentage of revenues, earnings were 11.6%, an improvement from 11.2% in 2007. However, 2007 did include restructuring costs incurred as a result of the closure of facilities in Italy and France. Excluding these restructuring costs, earnings in 2008 were 11.6% as compared to 12.0% in the prior year. Sales growth was seen in all markets and was further increased by the effect of exchange on non-US denominated sales. Excluding this foreign exchange benefit, organic sales growth was 5% in North America and 7% in Europe.

In North America, sales growth was fueled by sales of travel systems, car seats and strollers. Sales increased at the majority of the Company's largest customers indicating good acceptance of new product and continued strength in service to customers. The sales growth in Europe was due to continued gains in car seats and strollers, the two major product categories. Importantly, Dorel Europe also posted sales

Dorel Industries Inc.

gains in some of its other categories like safety items. The majority of these increases were in the United Kingdom and Germany as well as export sales to several smaller European countries in which Dorel does not have permanent establishments. Sales in France, the Company's largest European market, also improved over 2007 levels.

Gross margins for the segment were 29.2% in 2008 as compared to 30.4% in 2007. Higher product costs and a less profitable product mix were to blame for the decline at virtually all divisions. However, as in the fourth quarter, full year results include the benefit of the recognition of unrealized gains on foreign exchange hedging instruments. As the Company does not apply hedge accounting, gains on contracts in place for 2009 were recognized in 2008. These gains totaled \$8.9 million in the year and had the impact on the segment of increasing 2008 margins for the year from 28.4% to 29.2%. Selling, general, and administrative costs increased over 2007 levels from \$149.8 million to \$154.1 million. Excluding the impact of foreign exchange on expenses incurred in Euro, the figure for 2008 is \$148.5 million, a decline from 2007. The segment again incurred lower product liability related costs for the third straight year. In 2008 these costs totaled \$13.0 million versus \$16.6 million in the prior year.

Recreational / Leisure

Recreational / Leisure	2008		2007		Change	
	\$ ('000)	% of sales	\$ ('000)	% of sales	\$ ('000)	%
Revenues	<u>\$650,655</u>	<u>100.0%</u>	<u>\$374,783</u>	<u>100.0%</u>	<u>\$275,872</u>	<u>73.6%</u>
Gross margin	152,502	23.4%	72,948	19.5%	79,554	109.1%
Selling, general and administrative expenses	102,226	15.7%	38,260	10.2%	63,966	167.2%
Depreciation and amortization	<u>6,964</u>	<u>1.1%</u>	<u>1,736</u>	<u>0.5%</u>	<u>5,228</u>	<u>301.2%</u>
Earnings from operations	<u>\$ 43,312</u>	<u>6.7%</u>	<u>\$ 32,952</u>	<u>8.8%</u>	<u>\$10,360</u>	<u>31.4%</u>

Recreational / Leisure revenues increased 73.6% to \$650.7 million in 2008 compared to \$374.8 million a year ago. This increase was principally due to the acquisitions of Cannondale/SUGOI and PTI in the year. However excluding these, organic sales growth was also substantial at 8%. The sales increase was driven by the core bicycle business with sales gains at the majority of the mass merchant customers. Gross margins increased to 23.4% from 19.5% in the prior year due principally to the contribution of higher margin products sold by Cannondale and SUGOI. The parts and accessories now sold by the segment to its mass merchant customers also attract higher margins than bicycles which also contributed to the improved margins.

The selling costs required to support the Cannondale Sports Group's higher margins had the impact of increasing selling, general and administrative costs as a percentage of revenue to 15.7% as compared to 10.2% in 2007. At Pacific Cycle, the segment's mass merchant supplier, an additional \$2 million was spent in the year on advertising and promotional activities to support its brands. In general the Company is investing in the segment's infrastructure and this had the impact of increasing costs in categories such as salaries, information technology and other administrative areas. These investments were made in 2008 and to a great extent will provide benefits going forward.

The segment's depreciation and amortization expense in 2008 is much higher than in 2007 also due to the addition of Cannondale, SUGOI and PTI. This increase is from the depreciation of manufacturing assets at Cannondale and SUGOI as well as the amortization of various intangible assets acquired as part of the business acquisitions. These are the principal factors for the increase in earnings from operations from \$33.0 million in 2007 to \$43.3 million in 2008, an increase of \$10.4 million or 31.4%.

Home Furnishings

Home Furnishings	2008		2007		Change	
	\$ ('000)	% of sales	\$ ('000)	% of sales	\$ ('000)	%
Revenues	<u>\$ 438,871</u>	<u>100.0%</u>	<u>\$429,893</u>	<u>100.0%</u>	<u>\$8,978</u>	<u>2.1%</u>
Gross margin	54,340	12.4%	56,070	13.0%	(1,730)	(3.1%)
Selling, general and administrative expenses	35,861	8.2%	30,563	7.1%	5,298	17.3%
Depreciation and amortization	5,895	1.3%	5,845	1.4%	50	0.9%
Research and development	2,981	0.7%	2,645	0.6%	336	12.7%
Restructuring costs	<u>16</u>	<u>0.0%</u>	<u>6,934</u>	<u>1.6%</u>	<u>(6,918)</u>	<u>(99.8%)</u>
Earnings from operations	<u>\$ 9,587</u>	<u>2.2%</u>	<u>\$ 10,083</u>	<u>2.3%</u>	<u>(\$496)</u>	<u>(4.9%)</u>

For the year, Home Furnishings revenues increased by 2.1%, reaching \$438.9 million up from \$429.9 million in the prior year. Sales of furniture at Ameriwood, Altra and Dorel Asia, both domestic and imported, increased over last year. The fact that these furniture sales increased in a year characterized by recession and a dramatic decline in housing starts and new home sales is due to Dorel's focus on reasonably priced furniture sold at non-traditional furniture stores. However sales of metal folding furniture, ladders and futons decreased in the low to mid-single digits, tempering the impressive sales gains. The downward trend in the sale of metal folding furniture and ladders at Cosco Home & Office that was experienced in the first nine months of 2008 continued into the fourth quarter, whereas the futon sales reduction was a fourth quarter event, due to a severe reduction in orders by one major customer.

Gross margins in 2008 were 12.4% versus 13.0% recorded in the prior year. Included in cost of sales in 2007 were restructuring charges offset by an insurance recovery pertaining to a prior year. The net impact of these two events was to increase cost of sales by \$1.8 million. Excluding this amount, comparative margins would be 13.5% as opposed to the 13.0% recorded. Combined gross margins at segments' furniture businesses improved over the prior year. However declines at Cosco more than offset these improvements. Of all of Dorel's business units, Cosco was the one most affected by the steep rise in commodity prices and other cost pressures in 2008. The inability to pass on these cost increases meant that on some items margins were extremely low. Some of the product lines that Cosco sells in are highly competitive and brand differentiation is difficult, making price increases harder to implement.

Selling, general and administrative costs increased by \$5.3 million to \$35.9 million in 2008. As a percentage of revenues these costs increased from 7.1% to 8.2%. The principal reason for the increase was a \$1.1 million dollar increase in product liability costs and increases in employee incentives. Depreciation and amortization expense and research and development costs remained consistent with prior years. Including \$4.0 million grouped in cost of sales, the prior year also included \$10.9 million of restructuring costs. In 2008 these costs were negligible. As such earnings from operations for the year were \$9.6 million compared to \$10.1 million in 2007.

Balance Sheet

	<u>Selected Balance Sheet Data as at December 30:</u>		
	2008	2007	2006
Total assets	\$2,030,473	\$1,657,904	\$1,627,406
<u>Long-term Financial Liabilities, excluding current portion:</u>			
Long-term debt	\$ 450,704	\$ 192,385	\$ 375,135
Other long-term liabilities	\$ 6,010	\$ 6,848	\$ 7,719

The Company made two business acquisitions in the year that had a substantial impact on total assets and long-term debt as indicated above. On February 4, 2008, the Company acquired all the outstanding shares of the Cannondale Bicycle Corporation, a leading designer, developer and manufacturer of high-end bicycles. The aggregate purchase price was \$202.2. On June 26, 2008, the Company acquired the assets of PTI Sports, a leading US designer, manufacturer and distributor of bicycle parts, helmets and other accessories. The purchase price was \$29.4 million and there remains a balance of sale of \$1.1 million to be paid. Both acquisitions have been recorded under the purchase method of accounting with the results of operations of the acquired businesses being included in the accompanying consolidated financial statements since the date of acquisition.

The nets assets acquired as a part of the acquisitions were:

Cannondale

Assets	
Cash and cash equivalents	\$ 4,493
Accounts receivable	52,452
Inventories	67,940
Prepaid expenses	4,858
Short-term future income taxes	1,910
Property, plant and equipment	20,991
Trademarks	59,600
Customer relationships	27,100
Goodwill	21,343
Long-term future income taxes	8,515
	<u>269,202</u>
Liabilities	
Accounts payable and accrued liabilities	27,997
Income taxes payable	640
Short-term future income taxes	110
Other long-term liabilities	3,582
Long-term future income taxes	34,653
	<u>66,982</u>
Net assets acquired	<u>\$ 202,220</u>

PTI

Assets	
Accounts receivable	\$ 14,455
Inventories	9,630
Prepaid expenses	634
Property, plant and equipment	600
Customer relationships	14,600
Supplier relationship	1,500
Goodwill	1,302
Other long term assets	83
	42,804
Liabilities	
Accounts payable and accrued liabilities	13,433
Net assets acquired	\$29,371

Certain of the Company's working capital ratios are as follows:

	As at December 30,	
	2008	2007
Quick ratio	0.78	0.74
Current ratio	2.15	1.63
# of Days in receivables	55	58
# of Days in inventory	107	85

To make certain of the ratios more meaningful, certain ratios excluding business acquisitions would be:

# of Days in receivables	49	58
# of Days in inventory	96	85

The increase in the current ratio is due principally to increases in inventory levels. This increase is also reflected in the increase in the number of days in inventory figure of 107 versus 85 in the prior year. The causes were threefold. Firstly, the Cannondale and SUGOI businesses acquired generally turn their inventories more slowly than Dorel's other businesses. Secondly, the dramatic slowdown experienced in the fourth quarter meant that inventories that were expected to be shipped to customers were not. Thirdly, when comparing inventories year over year, there is a substantial portion that can be attributed to higher input costs in 2008 versus 2007. The increase in inventory is being addressed by the Company, and it is expected that during 2009, these levels will fall generating cash in the year ahead.

The Company's major subsidiaries are considered to be self-sustaining. As such, any foreign exchange fluctuations on conversion of non-US functional currency subsidiaries to the US dollar are reflected in the increase in the Company's Accumulated Other Comprehensive Income account, which is grouped in Shareholders' Equity. With the increase in value of the US dollar at the end of 2008 versus 2007, this value decreased from \$106.9 million as at December 30, 2007 to \$83.1 million as of December 30, 2008.

Liquidity and Capital Resources

Cash Flow

Free cash flow, a non-GAAP financial measure, was \$15.7 million in 2008 versus \$116.2 million in 2007, detailed as follows:

	2008	2007	Change
Cash flow from operations before changes in non-cash working capital:	\$ 158,390	\$ 142,858	\$ 15,532
Change in:			
Accounts receivable	28,223	19,811	8,412
Inventories	(121,027)	13,137	(134,164)
Prepaid expenses	677	(126)	803
Accounts payable and other liabilities	22,105	(23,707)	45,812
Income taxes	<u>(8,485)</u>	<u>15,367</u>	<u>(23,852)</u>
Cash provided by operating activities	79,883	167,340	(87,457)
Plus (less):			
Dividends paid	(16,707)	(12,524)	(4,183)
Additions to property, plant & equipment - net	(26,518)	(22,269)	(4,249)
Deferred development costs	(19,069)	(14,470)	(4,599)
Intangible assets	<u>(1,860)</u>	<u>(1,871)</u>	<u>11</u>
FREE CASHFLOW (1)	<u>\$ 15,729</u>	<u>\$ 116,206</u>	<u>(\$100,477)</u>

(1) "Free cash flow" is a non-GAAP financial measure and is defined as cash provided by operating activities less dividends paid, additions to property, plant & equipment, deferred development costs and intangibles.

During 2008, cash flow from operations, before changes in working capital, increased by \$15.5 million. After changes in non-cash working capital items, cash flow from operations decreased by \$87.5 million. As described above, the majority of this decline was due to an increase in inventory. The other variations in working capital balances, such as accounts receivable, accounts payable and income taxes were a function of timing as opposed to significant changes in trends. Capital expenditures on property, plant and equipment, deferred development costs and intangible assets totalled \$47.4 million in 2008, compared to \$38.6 million in 2007. The majority of the increase was due to increased spending in the area of new product development.

As of December 30, 2008, Dorel was compliant with all covenant requirements and expects to be so going forward. The Company's existing borrowing facility is in place until July 1, 2010 and provides for an annual one-year extension. Under this facility, the credit agreement allows for borrowing availability of up to \$475 million, plus an additional \$50 million accordion feature, if required.

Contractual Obligations

The following is a table of a summary of the contractual obligations of the Company as of December 30, 2008:

<u>Contractual Obligations</u>	<u>Total</u>	<u>less than 1 year</u>	<u>1 - 3 years</u>	<u>4 - 5 years</u>	<u>After 5 years</u>
<u>Long-term debt repayments</u>	\$ 459,583	\$ 8,879	\$ 434,217	\$ 16,487	-
<u>Interest payments (1)</u>	20,500	11,717	7,660	1,122	-
<u>Net operating lease commitments</u>	90,062	25,312	35,632	19,748	9,370
<u>Capital addition purchase commitments</u>	13,776	13,776	-	-	-
<u>Minimum payments under licensing</u>	4,209	2,031	2,178	-	-
<u>Balance of sale</u>	<u>1,100</u>	<u>1,100</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total contractual obligations</u>	<u>\$ 589,230</u>	<u>\$ 62,815</u>	<u>\$ 479,687</u>	<u>\$ 37,357</u>	<u>\$ 9,370</u>

(1) Interest payments on revolving bank loans assume no debt reduction other than the balance due in full in July 2010 and are calculated using the interest rate in effect as at December 30, 2008. Interest payments on the Company's notes are as specified in the related note agreements.

The Company does not have significant contractual commitments beyond those reflected in the consolidated balance sheet, the commitments in Note 18 to the Consolidated Financial Statements or those listed in the table above.

For purposes of this table, contractual obligations for the purchases of goods or services are defined as agreements that are enforceable and legally binding on the Company and that specify all significant terms, including: fixed or variable price provisions; and the approximate timing of the transaction. With the exception of those listed above, the Company does not have significant agreements for the purchase of raw materials or finished goods specifying minimum quantities or set prices that exceed its short term expected requirements. Therefore, not included in the above table are Dorel's outstanding purchase orders for raw materials, finished goods or other goods and services which are based on current needs and are fulfilled by our vendors on relatively short timetables.

As new product development is vital to the continued success of Dorel, the Company must make capital investments in research and development, moulds and other machinery, equipment and technology. It is expected that the Company will invest at least \$25.0 million over the course of 2009 to meet its new product development and other growth objectives. The Company expects its existing operations to be able to generate sufficient cash flow to provide for this and other requirements as they arise throughout the year.

Over and above long-term debt in the contractual obligation table, included in the Company's long-term liabilities are the following amounts:

Pension and post-retirement benefit obligations: As detailed in Note 15 of the Consolidated Financial Statements, this amount of \$20.1 million pertains to the Company's pension and post-retirement benefit plans. In 2009, contributions expected to be made for funded plans and benefits expected to be paid for unfunded plans under these plans will amount to approximately \$2.4 million..

Other long-term liabilities consist of:

Government mandated employee savings plans in Europe, the majority of which are due after five years	\$ 4,121
Other liabilities due in more than one year	<u>1,889</u>
	<u>\$6,010</u>

Off-Balance Sheet Arrangements

In addition to the contractual obligations listed above, the Company has certain off-balance sheet arrangements and commitments that have financial implications, specifically contingent liabilities, guarantees, and commercial and standby letters of credit. The Company's off-balance sheet arrangements are described in Notes 18 and 19 to the Consolidated Financial Statements for the year ended December 30, 2008.

Requests for providing commitments to extend credit and financial guarantees are reviewed and approved by senior management. Management regularly reviews all outstanding commitments, letters of credit and financial guarantees and the result of these reviews are considered in assessing the adequacy of Dorel's reserve for possible credit and guarantee losses.

Derivative Financial Instruments

As a result of its global operating activities, Dorel is subject to various market risks relating primarily to foreign currency exchange rate risk. In order to reduce or eliminate the associated risks, the Company uses various derivative financial instruments such as options, futures and forward contracts to hedge against adverse fluctuations in currency. The Company's main source of foreign currency exchange rate risk resides in sales and purchases of goods denominated in currencies other than the functional currency of each of Dorel's subsidiaries. In fact, the Company's financial debt is mainly denominated in US dollars, for which no foreign currency hedging is required. Short-term credit lines and overdrafts commonly used by Dorel's subsidiaries are in the currency of the borrowing entity and therefore carry no exchange-rate risk. Inter-company loans/borrowings are economically hedged as appropriate, whenever they present a net exposure to exchange-rate risk.

As such, derivative financial instruments are used as a method for meeting the risk reduction objectives of the Company by generating offsetting cash flows related to the underlying position in respect of amount and timing of forecasted transactions. Dorel does not hold or use derivative financial instruments for trading or speculative purposes.

The Company does not apply hedge accounting to foreign exchange contracts. The fair values, average rates and notional amounts of derivatives and the fair values and carrying amounts of financial instruments are disclosed in Note 14 of the Consolidated Financial Statements.

Critical Accounting Estimates

The Consolidated Financial Statements have been prepared in accordance with Canadian GAAP. The preparation of these financial statements requires estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. A complete list of all relevant accounting policies is listed in Note 2 to the Consolidated Financial Statements.

The Company believes the following are the most critical accounting policies that affect Dorel's results as presented herein and that would have the most material effect on the financial statements should these policies change or be applied in a different manner:

- **Goodwill and certain other indefinite life intangible assets:** Goodwill and certain other intangible assets have indefinite useful lives and as such, are not amortized to income. Instead, the Company must determine at least once annually whether the fair values of these assets are less than their carrying value, thus indicating impairment. The Company uses either the discounted cash flows valuation method or external valuations based on a market approach and makes assumptions and estimates in a number of areas, including future cash flows, appropriate multiples of earnings of comparable companies and discount rates.

- **Product liability:** The Company is insured for product liability by the use of both traditional and self-funded insurance to mitigate its product liability exposure. The estimated product liability exposure is calculated by an independent actuarial firm based on historical sales volumes, past claims history and management and actuarial assumptions. The estimated exposure includes incidents that have occurred, as well as incidents anticipated to occur on units sold prior to December 30, 2008. Significant assumptions used in the actuarial model include management's estimates for pending claims, product life cycle, discount rates, and the frequency and severity of product incidents.
- **Pension plans and post retirement benefits:** The costs of pension and other post-retirement benefits are calculated based on assumptions determined by management, with the assistance of independent actuarial firms and consultants. These assumptions include the long-term rate of return on pension assets, discount rates for pension and other post-retirement benefit obligations, expected service period, salary increases, retirement ages of employees and health care cost trend rates.
- **Future Income Taxes:** The Company follows the asset and liability method of accounting for income taxes. Under this method, future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values using the substantively enacted income tax rate, which will be in effect for the year in which the differences are expected to reverse. A valuation allowance is recorded to reduce the carrying amount of future income tax assets to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income and tax planning strategies. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of substantive enactment.
- **Allowances for sales returns and other customer programs:** At the time revenue is recognized certain provisions may also be recorded, including returns and allowances, which involve estimates based on current discussions with applicable customers, historical experience with a particular customer and/or product, and other relevant factors. Historical sales returns, allowances, write-offs, changes in our internal credit policies and customer concentrations are used when evaluating the adequacy of our allowance for sales returns. In addition, the Company records estimated reductions to revenue for customer programs and incentive offerings, including special pricing agreements, promotions, advertising allowances and other volume-based incentives. Historical sales data, agreements, customer vendor agreements, changes in internal credit policies and customer concentrations are analyzed when evaluating the adequacy of our allowances.

Future Accounting Changes

Inventories

In June 2007, the CICA issued Section 3031 "Inventories" which replaces Section 3030 "Inventories" and harmonizes the Canadian standards related to inventories with International Financial Reporting Standards ("IFRS"). This Section provides changes to the measurement and more extensive guidance on the determination of the cost, including allocation of overheads and other costs to inventories; prohibits the use of the last-in, first-out (LIFO) method; requires the reversal of previous write-downs when there is a subsequent increase in the value of inventories; and expands the disclosure requirements regarding inventories and cost of sales to increase transparency. This Section applies to interim and annual financial statements beginning on or after January 1, 2008. The Company will apply these new standards in the first quarter of 2009.

As a result of the more restrictive guidance on the determination of costs, the Company changed some of its overhead allocation policy, whereby some overheads costs will be expensed. In accordance with Section 3031, the Company will apply these changes in accounting policies by adjusting the opening retained earnings as at December 31, 2008 (prior fiscal year periods were not restated). Accordingly, effective as of the beginning of our 2009 fiscal year, the impact of measuring the inventories under the new standard is a decrease of the carrying amount of inventories of \$3,511. Opening retained earnings at the beginning of the fiscal year 2009 were decreased by \$2,096, equal to the change in opening inventories net of tax of \$1,415. Section 3031 requires depreciation expense related to manufacturing activities to be included in Cost of sales. The new disclosure requirements will be reflected in the Company's interim consolidated financial statements for the first quarter of 2009.

Goodwill and Intangible Assets

The CICA issued Section 3064, "Goodwill and Intangible Assets", which will replace Section 3062, "Goodwill and Other Intangible Assets" and Section 3450 "Research and development costs". The standard provides guidance on the recognition of intangible assets in accordance with the definition of an asset and the criteria for asset recognition as well as clarifying the concept of matching revenues and expenses, whether these assets are separately acquired or internally developed. This standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. For the Company, this Section is effective in the first quarter of 2009. The Company has evaluated the new section and determined that there is no impact of its adoption on its financial statements except the deferred development costs will be presented with the intangible assets as opposed to with the other assets. The reclassification will be reflected in the Company's interim consolidated financial statements for the first quarter of 2009.

General Standards of Financial Statement Presentation

In June 2007, the CICA amended Section 1400 "General Standards of Financial Statement Presentation", which is effective for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, and which includes requirements to assess and disclose the Company's ability to continue as a going concern. The adoption of the amended Section will have no impact on the consolidated financial statements of the Company.

International Financial Reporting Standards

The Accounting Standards Board of Canada ("AcSB") announced that accounting standards in Canada are to converge with IFRS. The changeover date from current Canadian GAAP to IFRS has been established as January 1, 2011. While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement and disclosures which must be addressed. As a result, the Company is currently developing its detailed IFRS conversion plan and evaluating the effect of these new standards on its consolidated financial statements. Determination of the key differences between IFRS and the Company's accounting policies is in progress with an evaluation of the main potential impact on its business practices, systems, disclosure controls and procedures, and internal controls over financial reporting.

The Company has a dedicated project manager to lead the conversion to IFRS. Members of the finance team are working closely with senior management in a number of different business areas to ensure that the impact of the conversion throughout the business is managed in a timely and efficient manner. Training and additional resources will be engaged as required to ensure the timely conversion to IFRS.

Market Risks and Uncertainties

General Economic Conditions

The current economic conditions have worsened over the course of 2008 and into the early part of 2009. Recent economic projections by various governmental and other agencies have predicted that these negative conditions are likely to extend into 2009 and perhaps 2010. With higher unemployment and worsening consumer sentiment, it is likely that available discretionary income will decline and reduce consumer spending at the retail level. While Dorel is not immune to these conditions, the nature of the great majority of the Company's products, and the customers to which Dorel's products are sold, protect the Company to a certain extent. Over the course of Dorel's 47 year history, the Company has experienced several economic downturns and its products have proven to be ones that consumers continue to purchase.

In the Juvenile segment, the Company believes that demand for its products remains steady as child safety is a constant priority and parents require products that fill that need regardless of economic conditions. In Home Furnishings, Dorel concentrates exclusively on value priced items and sells the majority of its products through the mass merchant distribution channel. During difficult economic times, when shopping for furniture, consumers are likely to spend less and tend to eschew furniture store outlets and shop at the mass merchants for reasonably priced items. In Recreational / Leisure, the Company's newest segment, the Company believes that recent consumer trends that consider health and environmental concerns will also help buffer this segment against possible declines in overall consumer spending. In addition, Dorel offers a great deal of product in the value priced product category available at its mass merchant customers. This means that should consumers elect to spend less on a particular recreational product, Dorel has alternatives to higher priced items.

Product Costs and Supply

Dorel purchases raw materials, component parts and finished goods. The main commodity items purchased for production include particleboard and plastic resins, as well as corrugated cartons. Key component parts include car seat and futon covers, hardware, buckles and harnesses, and futon frames. These parts are derived from textiles, and a wide assortment of metals, plastics, and wood. The Company's finished goods purchases are largely derived from steel, aluminum, resins, textiles, rubber, and wood.

In 2008, all raw material prices increased significantly in the first half of the year followed by decreases in the second half. Resin prices increased by as much as 30% in North America and 10% in Europe in the first three quarters, before declining in the fourth quarter. Particleboard pricing in North America increased close to 15% in the first nine months of the year before beginning to decline. However, unlike other commodities, the decline in particleboard pricing was tempered by the fact that supply is limited, meaning prices did not decline as significantly as other commodities.

Dorel is among North America's top 20 importers in terms of container volume from the Far East. Container freight costs were higher in 2008 relative to 2007 as significantly higher fuel surcharges impacted both ocean and inland transportation costs in both North America and Europe. Container freight rates started decreasing in the fourth quarter of 2008 and rates should continue to decline during the first half of 2009 due to decreased demand and oversupply issues.

The Company's suppliers of components and finished goods were also faced with significant price increases on steel, resin, rubber, textiles, and foam, ranging anywhere from 20% to 40% during the first half of the year before prices began to decline. Similar to past years, the Company's suppliers based in China faced additional costs over and above raw material price fluctuations. The Chinese currency ("RMB") continued its level of appreciation versus the United States dollar, rising 6.5% year-over-year. Furthermore, labor costs in China rose on average by 25% during 2008.

Dorel relies on its suppliers for both finished goods and raw materials and has always prided itself on establishing successful long-term relationships both domestically and overseas. The recent economic downturn and related fall in demand has forced many manufacturers, particularly in China, to cease operations. As of now, Dorel has not been adversely affected by these events and is actively working with its supplier base to ensure that the flow of product is not interrupted. Should one or more of the Company's major vendors be unable to supply Dorel, this could have an adverse affect on the Company going forward.

Foreign Currency Fluctuations

As a multinational company Dorel uses the United States dollar as its reporting currency. As such, Dorel is subject to risk due to variations in currency values against the United States dollar. Foreign currency risk occurs at two levels; operational and translational. Operational currency risk occurs when a given division either incurs costs or generates revenues in a currency other than its own functional currency. The company's operations that are most affected by operational currency risk are those that operate in the Euro zone, the United Kingdom, Canada and Australia. Translational risk occurs upon conversion of non-US functional currency divisions' results to the United States dollar for reporting purposes. As Dorel's European and Australian operations are the only significant subsidiaries that do not use the US dollar as their functional currency, translational risk is limited to only those operations. The two major functional currencies in Europe are the Euro and Pound Sterling.

Dorel's European and Australian operations are negatively effected by a stronger United States dollar as portions of its purchases are in United States dollars, while its revenues are not. Dorel's Canadian operations generally benefit from a stronger United States dollar as large portions of its revenues are generated in the United States and the majority of its costs are in Canadian dollars. This situation is mitigated somewhat by Dorel Canada's juvenile operations that import United States dollar denominated goods and sells to Canadian customers. As a result, over the past several years, the weakening of the United States dollar against the Euro, Pound Sterling and Canadian dollar has had an overall impact that was not material year-over-year as the impacts offset. However, the offsetting impacts occur in different segments, meaning the negative impact of a stronger United States dollar occurs in the Juvenile segment while the positive impact occurs mainly in the Home Furnishings segment. The Recreational / Leisure impact is generally neutral, with its European operations offsetting against its Canadian operations.

Where advantageous, the Company uses options, futures and forward contracts to hedge against these adverse fluctuations in currency. However, the Company does not employ hedge accounting and is required under GAAP to re-value these hedging instruments to market value at the end of each period. As such, there is a timing difference between the accounting impact and the cash flow impact. In 2008, the Company marked these contracts to market value and recorded significant unrealized accounting gains on these contracts for which the cash flow benefit will only occur in 2009. Further details on the Company's hedging strategy and the impact in the year can be found in note 14 to the Company's year-end financial statements.

While the Canadian operations and European operations help offset the possible negative impact of changes in the United States dollar, a significant change in the value of the United States dollar would affect future earnings.

Concentration of Revenues

For the year ended December 30, 2008, one customer accounted for over 10% of the Company's revenues, at 30.4% of Dorel's total. In 2007, this customer accounted for 33.9% of revenues. Dorel does not have long-term contracts with its customers, and as such revenues are dependent upon Dorel's continued ability to deliver attractive products at a reasonable price, combined with high levels of service. There can be no assurance that Dorel will be able to sell to such customers on an economically advantageous basis in the future or that such customers will continue to buy from Dorel.

Customer and Credit Risk

The majority of the Company's revenue is derived from sales to major retail chains in North America and Europe. The balance of Dorel's sales are made mostly to specialty juvenile stores in Europe and

independent bike dealers in both the United States and Europe. To minimize credit risk, the Company conducts ongoing credit reviews and maintains credit insurance on selected accounts. Should certain of these major retailers cease operations, there could be a material short term adverse effect on the Company's consolidated results of operations. In the long term, the Company believes that should certain retailers cease to exist, consumers will shop at competitors at which Dorel's products will generally also be sold.

Product Liability

As with all manufacturers of products designed for use by consumers, Dorel is subject to numerous product liability claims, particularly in the United States. At Dorel, there is an ongoing effort to improve quality control and to ensure the safety of its products. The Company is insured for product liability by the use of both traditional insurance and self-funded insurance programs, which mitigate its product liability exposure. No assurance can be given that a judgment will not be rendered against it in an amount exceeding the amount of insurance coverage or in respect of a claim for which Dorel is not insured.

Income Taxes

The Company's current organizational structure has resulted in a comparatively low effective income tax rate. This structure and the resulting tax rate are supported by current domestic tax laws in which the Company operates and by the interpretation and application of these tax laws. The rate can also be affected by the application of income tax treaties between these various jurisdictions. Unanticipated changes to these interpretations and applications of current domestic tax laws, or to the tax rates and treaties, could impact the effective income tax rate of the Company going forward.

Product and Brand Development

To support continued revenue growth, the Company must continue to update existing products, design innovative new items, develop strong brands and make significant capital investments. The Company has invested heavily in product development and plans to keep it at the centre of its focus. In addition, the Company must continue to maintain, develop and strengthen its end-user brands. Should the Company invest in or design products that are not accepted in the marketplace, or if its products are not brought to market in a timely manner, and in certain cases, fail to be approved by the appropriate regulatory authorities, this could negatively impact future growth.

Regulatory Environment

The Company operates in certain industries which are highly regulated and as such is bound to operate within constraints imposed by various regulatory authorities. In recent years greater concern regarding product safety has resulted in more onerous regulations being placed on the Company as well as on all of the Company's competitors operating in these industries. Dorel has always operated within this environment and has always placed a great deal of resources on meeting these obligations, and is therefore well positioned to meet these regulatory requirements. However, any future regulations that would require additional costs could have an impact on the Company going forward.

Liquidity and Access to Capital Resources

Dorel requires continued access to capital markets to support its activities. Part of the Company's long-term strategy is to grow through the acquisition of complementary businesses that it believes will enhance the value of the Company for its shareholders. To satisfy its financing needs, the Company relies on long-term and short-term debt and cash flow from operations. The recent severe tightening of global credit markets has made new loans, even for creditworthy businesses, extremely difficult or expensive to obtain. However, the Company's banking relationships are strong and its credit facilities are secured into 2010. Any impediments to the Company's ability to access capital markets, including significant changes in market interest rates, general economic conditions or the perception in the capital markets of the Company's financial condition or prospects, could have a material adverse effect on the Company's financial condition and results of operation.

Valuation of Goodwill and other Intangible Assets

As part of annual impairment tests, the value of goodwill and other indefinite life intangible assets are subject to significant assumptions, such as future expected cash flows, comparable market transaction multiples and assumed discount and weighted average cost of capital rates. In addition, the value of customer relationship intangible assets recognized includes significant assumptions in reference to customer attrition rates and useful lives. Should current market conditions adversely effect the Company's expectations of future results, this could result in a non-cash impairment being recognized at some point in the future. Additionally, in the current market environment, some of the other assumptions could be impacted by factors beyond the Company's control. For example, the absence of, or lower, comparable market transaction multiples or more conservative risk assumptions could materially affect these valuations and could require a downward adjustment in the value of these intangible assets in the future.

Other Information

The designation, number and amount of each class and series of its shares outstanding as of February 28, 2009 are as follows:

An unlimited number of Class "A" Multiple Voting Shares without nominal or par value, convertible at any time at the option of the holder into Class "B" Subordinate Voting Shares on a one-for-one basis, and;

An unlimited number of Class "B" Subordinate Voting Shares without nominal or par value, convertible into Class "A" Multiple Voting Shares, under certain circumstances, if an offer is made to purchase the Class "A" shares.

Details of the issued and outstanding shares are as follows:

Class A		Class B		Total
Number	\$('000)	Number	\$('000)	\$('000)
4,229,710	\$ 1,793	29,172,482	\$175,629	\$ 177,422

Outstanding stock options and Deferred Share Unit items are disclosed in Note 17 to the Consolidated Financial Statements. There were no significant changes to these values in the period between the year end and the date of the preparation of this MD & A.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures

National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators requires Chief Executive Officers ("CEOs") and Chief Financial Officers ("CFOs") to certify that they are responsible for establishing and maintaining disclosure controls and procedures for the Company, that disclosure controls and procedures have been designed and are effective in providing reasonable assurance that material information relating to the Company is made known to them, that they have evaluated the effectiveness of the Company's disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings have been disclosed by the Company.

Under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice-president, Chief Financial Officer and Secretary, we have evaluated the design of the Company's disclosure controls and procedures as at December 30, 2008 and have

concluded that those disclosure controls and procedures were effective in ensuring that information required to be disclosed by the Company in its corporate filings is recorded, processed, summarized and reported within the required time period for the year then ended.

Internal controls over financial reporting

National Instrument 52-109 also requires CEOs and CFOs to certify that they are responsible for establishing and maintaining internal controls over financial reporting for the Company, that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles, and that the Company has disclosed any changes in its internal controls during its most recent interim period that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

During 2008, management evaluated the Company's internal controls over financial reporting to ensure that they have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles. Management has used the Internal Control-Integrated Framework to evaluate the effectiveness of internal controls over reporting, which is recognized and suitable framework developed by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO").

Under the supervision of and with the participation of management, including the President and Chief Executive Officer and Executive Vice-president, Chief Financial Officer and Secretary, we have evaluated the internal controls over financial reporting as at December 30, 2008 and have concluded that those internal controls were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

The Company did acquire new businesses in the year which were privately owned prior to their acquisition. While the Company continues to assess these recent acquisitions, the design of its disclosure controls and procedures and internal control over financial reporting are limited to exclude these businesses.

Caution Regarding Forward Looking Information

Certain statements included in this MD&A may constitute "forward looking statements" within the meaning of the US Private Securities Litigation Reform Act of 1995. Forward looking statements generally can be identified by the use of forward looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. We refer you to the Company's filings with the Canadian securities regulatory authorities for a discussion of the various factors that may affect the Company's future results.

Readers are cautioned, however, not to place undue reliance on forward looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward looking statements involve numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and other forward looking statements will not occur. This may cause the Company's actual performance and financial results in future periods to differ materially from any estimates or projections of future performance or results expressed or implied by such forward looking statements.

We believe that the expectations represented by such forward looking statements are reasonable, yet there can be no assurance that such expectations will prove to be correct. The forward looking statements contained in this report reflect the Company's expectations as at the date of this MD & A and are subject to change after such date. Unless otherwise required by applicable securities laws, the Company

expressly disclaims any intention, and assumes no obligation to update publicly or to revise any of the included forward looking statements, whether as a result of new information, future events or otherwise. The forward looking statements contained in this report are expressly qualified by this cautionary statement.